

CITY OF CHARITON  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016

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City of Chariton

Officials

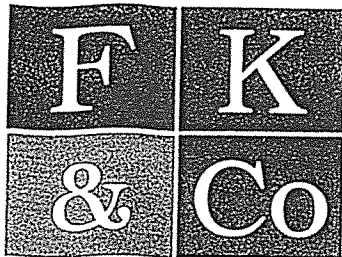
(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger D. Manser	Mayor	January 1, 2018
Ruth Smith	Council Member	January 1, 2016
Michael W. Graves	Council Member	January 1, 2016
Dennis Bisgard	Council Member	January 1, 2018
Vernon Vogel	Council Member	January 1, 2018
Joe Gaa	City Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	Indefinite
Verle W. Norris	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger D. Manser	Mayor	January 1, 2018
Ruth Smith	Council Member	January 1, 2020
Michael W. Graves	Council Member	January 1, 2020
Dennis Bisgard	Council Member	January 1, 2018
Vernon Vogel	Council Member	January 1, 2018
Joe Gaa	City Manager/Clerk/Treasurer	Indefinite
Verle W. Norris	Attorney	Indefinite

City of Chariton



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, (City) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

### *Basis for Adverse Opinion on Aggregate Discretely Presented Component Units*

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

### *Adverse Opinion on Aggregate Discretely Presented Component Units*

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2016, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

### *Unmodified Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

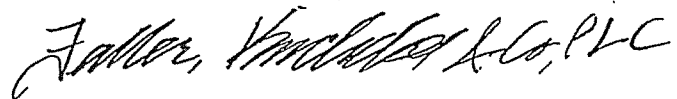
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2015 (which is not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the legally separate component units. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 33 through 37 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa  
February 6, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Chariton (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 31.4%, or approximately \$1,740,000, from fiscal year 2015 to fiscal year 2016. Capital grants, contributions and restricted interest decreased approximately \$1,986,000, but tax increment financing receipts increased approximately \$141,000.
- Disbursements of the City's governmental activities decreased 46.0%, or approximately \$3,422,000, in fiscal year 2016 from fiscal year 2015. Community and economic development, capital projects and payment to refunding bond escrow agent disbursements decreased approximately \$1,383,000, \$262,000 and \$1,958,000, respectively.
- The City's total cash basis net position decreased 14.2%, or approximately \$649,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$227,000 and the cash basis net position of the business type activities decreased approximately \$422,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.



## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system, solid waste, airport, and storm water. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Local Option Sales Tax funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Sewer Fund, the Solid Waste Fund and the Airport Fund, considered to be major funds of the City. The Storm Water Fund is considered to be a non-major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$3.241 million to approximately \$3.014 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 291	194
Operating grants, contributions and restricted interest	803	565
Capital grants, contributions and restricted interest	408	2,394
General receipts:		
Property tax	1,765	1,864
Tax increment financing	141	-
Local option sales tax	308	324
Hotel-Motel tax	32	35
Loan proceeds	29	75
Grants and contributions not restricted to specific purposes	19	19
Unrestricted interest on investments	4	4
Miscellaneous	2	51
Sale of capital assets	2	19
Total receipts	3,804	5,544
Disbursements:		
Public safety	715	712
Public works	663	607
Health and social services	7	7
Culture and recreation	665	583
Community and economic development	107	1,490
General government	462	373
Debt service	371	420
Capital projects	1,032	1,294
Payment to refunding bond escrow agent	-	1,958
Total disbursements	4,022	7,444
Change in cash basis net position before transfers	(218)	(1,900)
Transfers, net	(9)	37
Change in cash basis net position	(227)	(1,863)
Cash basis net position beginning of year	3,241	5,104
Cash basis net position end of year	\$ 3,014	3,241

The City's total receipts for governmental activities decreased 31.4%, or approximately \$1,740,000. The total cost of all programs and services decreased approximately \$3,422,000, or 46.0%, with no new programs added this year. The decrease in receipts was the result of a decrease in capital grants, contributions and restricted interest. The decrease in disbursements is the result of a decrease in community and economic development, capital projects and the payment to refunding bond escrow agent.

The City increased property tax rates for fiscal year 2016. This increase raised the City's combined property tax receipts and tax increment financing receipts approximately \$42,000 from fiscal year 2015 to fiscal year 2016. Property tax receipts are budgeted to remain relatively the same in fiscal year 2017.

The cost of all governmental activities this year was approximately \$4.022 million compared to approximately \$7.444 million last year. However, as shown on the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was \$2.521 million because some of the cost was paid by those directly benefited from the programs (approximately \$291,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$1,211,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$3,153,000 to approximately \$1,502,000, principally due to decreased capital grants, contributions and restricted interest in fiscal year 2016 compared to fiscal year 2015. This decrease was primarily due to fewer dollar amounts of grants received from the State of Iowa.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 773	785
Solid waste	23	23
Airport	54	69
Storm water	64	65
General receipts:		
Miscellaneous	8	13
Total receipts	922	955
Disbursements:		
Sewer	561	654
Solid waste	20	14
Airport	757	66
Storm water	15	13
Total disbursements	1,353	747
Change in cash basis net position before transfers	(431)	208
Transfers, net	9	(36)
Change in cash basis net position	(422)	172
Cash basis net position beginning of year	1,339	1,167
Cash basis net position end of year	\$ 917	1,339

Total business type activities receipts for the fiscal year were approximately \$0.922 million compared to approximately \$0.955 million last year. The decrease was due primarily due to a decrease in sewer and airport charges for service receipts in fiscal year 2016. The cash balance decreased approximately \$422,000 from the prior year. Total disbursements for the fiscal year increased 81.1% to approximately \$1.353 million.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City completed the year, its governmental funds reported a combined fund balance of \$2,914,353, a decrease of more than \$280,000 below last year's total of \$3,195,146. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$71,182 from the prior year to \$873,739. The City has been watching the General Fund very close in order to stabilize the balance in this fund.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$34,132 from the prior year to \$61,225. This increase was due to increased road use tax funds from the State of Iowa.
- The Special Revenue, Downtown Revitalization Fund cash balance decreased by \$230,647 from the prior year to (\$288,649). This decrease was due to costs incurred in excess of available receipts into this fund.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$101,046 during the fiscal year to a total of \$1,184,134. This decrease in cash is due to increased capital project costs incurred in this fund in fiscal year 2016.
- The Special Revenue, Employee Benefits Fund cash balance increased by \$59,648 from the prior year to \$397,891. In the fiscal year, the City just levied more than related costs incurred in this fund.
- The Debt Service Fund cash balance increased by \$43,877 during the fiscal year to a total of \$74,531. In the fiscal year, the City just levied more than related costs incurred in this fund.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Sewer Fund cash balance increased by \$177,576 to \$967,038, due to fewer capital project costs incurred in fiscal year 2016 compared to fiscal year 2015.
- The Enterprise, Solid Waste Fund cash balance increased by \$3,315 to \$446,921, due primarily to the need to continue to develop reserves to an adequate level to address potential upcoming capital expenditures.
- The Enterprise, Airport Fund cash balance decreased by \$651,238 to (\$650,328), due primarily to construction costs incurred at the airport. These costs were paid prior to a federal grant received from the federal government.

#### **BUDGETARY HIGHLIGHTS**

During the course of the year, the City amended its budget one time. The budget was amended because of business-type activities costs which were greater than originally anticipated. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$2,555,636 less than budgeted. This was primarily due to the City receiving less charges for services and intergovernmental receipts than anticipated, even after the budget amendment.

Even with the budget amendment, the City went over budget in several functions. The City exceeded the amounts budgeted in the public works, culture and recreation, general government and capital projects functions by \$30,577, \$33,498, \$58,154 and \$757,031, respectively.

## DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$2,643,000 in bonds and other long-term debt outstanding, compared to approximately \$3,007,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2016	2015
General obligation bonds and notes	\$ 1,970	2,295
Revenue bonds	619	653
Bank loans	54	59
Total	\$ 2,643	3,007

Debt decreased as a result of retiring debt in the fiscal year.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2014	\$ 148,894,081
Debt Limit	5%
	<u>\$ 7,444,704</u>

The City's outstanding general obligation debt of \$1,970,000 is below the constitutional debt limit of \$7,444,704.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy and the rising costs of employee benefits.

These indicators were taken into account when adopting the budget for fiscal year 2016. Amounts available for appropriation in the operating budget are approximately \$5.914 million, a sharp drop from the 2016 budget year.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joe Gaa, City Manager, 115 South Main Street, Chariton, Iowa 50049.

## Basic Financial Statements

## City of Chariton

Exhibit A

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

Functions / Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Governmental activities:</b>							
Public safety	\$ 715,364	38,488	96,201	-	(580,675)	-	(580,675)
Public works	663,235	43,125	557,781	-	(62,329)	-	(62,329)
Health and social services	7,400	-	-	-	(7,400)	-	(7,400)
Culture and recreation	665,476	119,570	109,019	-	(436,887)	-	(436,887)
Community and economic development	107,161	-	17,534	-	(89,627)	-	(89,627)
General government	461,919	90,305	22,589	-	(349,025)	-	(349,025)
Debt service	371,050	-	-	-	(371,050)	-	(371,050)
Capital projects	1,032,031	-	-	407,912	(624,119)	-	(624,119)
Total governmental activities	4,023,636	291,488	803,124	407,912	(2,521,112)	-	(2,521,112)
<b>Business type activities:</b>							
Sewer	560,665	773,095	-	-	-	212,430	212,430
Solid waste	19,682	22,988	-	-	-	3,306	3,306
Airport	757,258	54,222	-	-	-	(703,036)	(703,036)
Storm water	15,591	64,116	-	-	-	48,525	48,525
Total business type activities	1,353,196	914,421	-	-	-	(438,775)	(438,775)
<b>Total</b>	<b>\$ 5,376,832</b>	<b>1,205,909</b>	<b>803,124</b>	<b>407,912</b>	<b>(2,521,112)</b>	<b>(438,775)</b>	<b>(2,959,887)</b>
<b>General Receipts and Transfers:</b>							
Property and other city tax levied for:							
General purposes					1,326,846	-	1,326,846
Debt service					438,503	-	438,503
Tax increment financing					140,776	-	140,776
Local option sales tax					307,616	-	307,616
Hotel-Motel tax					32,349	-	32,349
Grants and contributions not restricted to specific purposes					18,859	-	18,859
Unrestricted interest on investments					3,912	-	3,912
Miscellaneous					2,461	7,972	10,433
Loan proceeds					29,000	-	29,000
Sale of capital assets					2,500	-	2,500
Transfers					(8,491)	8,491	-
Total general receipts and transfers					2,294,331	16,463	2,310,794
<b>Change in cash basis net position</b>					<b>(226,781)</b>	<b>(422,312)</b>	<b>(649,093)</b>
<b>Cash basis net position beginning of year</b>					<b>3,241,149</b>	<b>1,338,975</b>	<b>4,580,124</b>
<b>Cash basis net position end of year</b>					<b>\$ 3,014,368</b>	<b>916,663</b>	<b>3,931,031</b>
<b>Cash Basis Net Position</b>							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 221,810	-	221,810
Expendable:							
Insurance					11,386	-	11,386
Community center					76,943	-	76,943
Debt service					74,531	73,084	147,615
Streets					61,225	-	61,225
Other purposes					2,071,604	-	2,071,604
Unrestricted					496,869	843,579	1,340,448
<b>Total cash basis net position</b>					<b>\$ 3,014,368</b>	<b>916,663</b>	<b>3,931,031</b>

See notes to financial statements.

## City of Chariton

Exhibit B

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue						
	General	Road Use Tax	Downtown Revitalization	Local Option Sales Tax	Employee Benefits	Debt Service	Nonmajor
<b>Receipts:</b>							
Property tax	\$ 907,994	-	-	-	374,260	424,404	-
Tax increment financing	-	-	-	-	-	-	140,776
Other city tax	143,539	-	-	307,616	13,027	14,099	-
Licenses and permits	32,880	-	-	-	-	-	-
Use of money and property	10,359	-	-	1,510	-	-	-
Intergovernmental	175,871	533,986	230,573	-	-	-	267
Charges for service	112,538	-	-	-	-	-	780
Miscellaneous	152,642	-	177,339	-	-	-	-
Total receipts	1,535,823	533,986	407,912	309,126	387,287	438,503	161,208
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	606,656	-	-	-	121,018	-	-
Public works	125,504	499,854	-	-	73,691	-	-
Health and social services	7,400	-	-	-	-	-	-
Culture and recreation	603,072	-	-	-	66,156	-	1,065
Community and economic development	38,626	-	-	-	-	-	68,535
General government	396,215	-	-	-	66,774	-	-
Debt service	-	-	-	-	-	371,050	-
Capital projects	-	-	760,559	271,472	-	-	-
Total disbursements	1,777,473	499,854	760,559	271,472	327,639	371,050	69,600
Excess (deficiency) of receipts over (under) disbursements	(241,650)	34,132	(352,647)	37,654	59,648	67,453	91,608
<b>Other financing sources (uses):</b>							
Sale of capital assets	2,500	-	-	-	-	-	-
Loan proceeds	29,000	-	-	-	-	-	-
Transfers in	148,968	-	122,000	-	-	-	14,817
Transfers out	(10,000)	-	-	(138,700)	-	(23,576)	(122,000)
Total other financing sources (uses)	170,468	-	122,000	(138,700)	-	(23,576)	(107,183)
Change in cash balances	(71,182)	34,132	(230,647)	(101,046)	59,648	43,877	(15,575)
Cash balances beginning of year	944,921	27,093	(58,002)	1,285,180	338,243	30,654	627,057
Cash balances end of year	\$ 873,739	61,225	(288,649)	1,184,134	397,891	74,531	611,482
<b>Cash Basis Fund Balances</b>							
<b>Nonspendable:</b>							
Cemetery perpetual care	\$ -	-	-	-	-	-	221,810
<b>Restricted for:</b>							
Insurance	11,386	-	-	-	-	-	-
Community center	76,943	-	-	-	-	-	-
Debt service	-	-	-	-	-	74,531	-
Streets	-	61,225	-	-	-	-	-
Other purposes	-	-	-	1,184,134	397,891	-	489,579
Assigned	664,896	-	-	-	-	-	-
Unassigned	120,514	-	(288,649)	-	-	-	(99,907)
Total cash basis fund balances	\$ 873,739	61,225	(288,649)	1,184,134	397,891	74,531	611,482

See notes to financial statements.



City of Chariton

Exhibit C

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Governmental Funds

As of and for the year ended June 30, 2016

Total governmental funds cash balances (page 16) \$ 2,914,353

*Amounts reported for governmental activities in the Cash Basis Statement  
of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of  
the City's central fuel facility to individual funds. A portion of the  
cash balance of the Internal Service Fund is included in governmental  
activities in the Cash Basis Statement of Activities and Net Position.

100,015

Cash basis net position of governmental activities (page 15) \$ 3,014,368

Change in cash balances (page 16) \$ (280,793)

*Amounts reported for governmental activities in the Cash Basis Statement  
of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of  
the City's central fuel facility to individual funds. A portion of the  
change in the cash balance of the Internal Service Fund is reported  
with governmental activities in the Cash Basis Statement of Activities  
and Net Position.

54,012

Change in cash basis net position of governmental activities (page 15) \$ (226,781)

See notes to financial statements.

## City of Chariton

Exhibit D

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2016

	Enterprise					Internal Service Central Fuel
	Sewer	Solid Waste	Airport	Nonmajor - Storm Water	Total	
Operating receipts:						
Use of money and property	\$ 300	539	36,753	-	37,592	-
Charges for service	772,795	22,449	17,469	64,116	876,829	252,627
Total operating receipts	773,095	22,988	54,222	64,116	914,421	252,627
Operating disbursements:						
Governmental activities:						
Public safety	-	-	-	-	-	9,087
Public works	-	-	-	-	-	22,958
Culture and recreation	-	-	-	-	-	3,606
General government	-	-	-	-	-	161,203
Business type activities	504,952	19,682	44,059	15,591	584,284	2,251
Total operating disbursements	504,952	19,682	44,059	15,591	584,284	199,105
Excess of operating receipts over operating disbursements	268,143	3,306	10,163	48,525	330,137	53,522
Non-operating receipts (disbursements):						
Miscellaneous	4,865	9	3,098	-	7,972	-
Debt service	(55,223)	-	-	-	(55,223)	-
Capital projects	-	-	(713,199)	-	(713,199)	-
Net non-operating receipts (disbursements)	(50,358)	9	(710,101)	-	(760,450)	-
Excess (deficiency) of receipts over (under) disbursements	217,785	3,315	(699,938)	48,525	(430,313)	53,522
Other financing sources (uses):						
Transfers in	-	-	48,700	-	48,700	-
Transfers out	(40,209)	-	-	-	(40,209)	-
Total other financing sources (uses)	(40,209)	-	48,700	-	8,491	-
Change in cash balances	177,576	3,315	(651,238)	48,525	(421,822)	53,522
Cash balances beginning of year	789,462	443,606	910	98,123	1,332,101	52,877
Cash balances end of year	\$ 967,038	446,921	(650,328)	146,648	910,279	106,399
<b>Cash Basis Fund Balances</b>						
Restricted for debt service	\$ 73,084	-	-	-	73,084	-
Unrestricted	893,954	446,921	(650,328)	146,648	837,195	52,877
Total cash basis fund balances	\$ 967,038	446,921	(650,328)	146,648	910,279	106,399

See notes to financial statements.

City of Chariton

Exhibit E

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Proprietary Funds

As of and for the year ended June 30, 2016

Total enterprise funds cash balances (page 18) \$ 910,279

*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

6,384

Cash basis net position of business type activities (page 15) \$ 916,663

Change in cash balances (page 18) \$ (421,822)

*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(490)

Change in cash basis net position of business type activities (page 15) \$ (422,312)

See notes to financial statements.

City of Chariton

Notes to Financial Statements

June 30, 2016

**(1) Summary of Significant Accounting Policies**

The City of Chariton (City) is a political subdivision of the State of Iowa located in Lucas County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Council-Manager form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general governmental services. The City also provides sewer, storm water, and airport services for its citizens.

**A. Reporting Entity**

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

**Excluded Component Units**

The Chariton Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

The Chariton Volunteer Fire Department was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Chariton Volunteer Fire Department is to support the activities of the Chariton, Iowa fire department.

The Chariton Public Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Chariton Public Library Foundation is to support the activities of the Chariton, Iowa public library.

**Jointly Governed Organizations**

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

### Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

### B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and proprietary funds are aggregated and reported as nonmajor governmental funds and nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

#### Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Downtown Revitalization Fund is used to account for grants and contributions received for the downtown rehabilitation façade program costs incurred by the City.

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for the operation and maintenance of the municipal swimming pool, along with infrastructure improvements including street, sanitary sewer, storm water and park improvements.

The Employee Benefits Fund is utilized to account for property tax and other receipts to be used for the payment of employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's closed landfill.

The Enterprise, Airport Fund accounts for the operation and maintenance of the City's airport operations and facilities.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government, and capital projects functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 330,000	39,400	36,000	18,570	366,000	57,970
2018	340,000	32,800	37,000	17,490	377,000	50,290
2019	250,000	26,000	38,000	16,380	288,000	42,380
2020	255,000	21,000	39,000	15,240	294,000	36,240
2021	260,000	15,900	40,000	14,070	300,000	29,970
2022	265,000	10,700	42,000	12,870	307,000	23,570
2023	270,000	5,400	43,000	11,610	313,000	17,010
2024	-	-	45,000	10,320	45,000	10,320
2025	-	-	46,000	8,970	46,000	8,970
2026	-	-	47,000	7,590	47,000	7,590
2027	-	-	49,000	6,180	49,000	6,180
2028	-	-	51,000	4,710	51,000	4,710
2029	-	-	52,000	3,180	52,000	3,180
2030	-	-	54,000	1,620	54,000	1,620
	<u>\$1,970,000</u>	<u>151,200</u>	<u>619,000</u>	<u>148,800</u>	<u>2,589,000</u>	<u>300,000</u>

Sewer Revenue Bond (Series 2009-A) – On January 13, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (trustee) for the issuance of a \$808,000 sewer revenue bond with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater system. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the sewer revenue bond was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2010 by the bank from the first proceeds of the sewer revenue bond drawn down by the City.

The City has pledged future customer wastewater customer receipts, net of specified operating disbursements, to repay \$808,000 in a sewer revenue bond issued in 2010. The bond is payable solely from wastewater customer net receipts and is payable through 2030. Annual principal and interest payment on the bond is expected to require less than 20% of net receipts. The total principal and interest remaining to be paid on the bond is \$767,800. For the current year, principal and interest paid and total customer net receipts were \$53,590 and \$268,143, respectively.

The resolutions providing for the issuance of the wastewater revenue bonds include the following provisions:

- (a) The bond will only be redeemed from the future earnings of the City and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a wastewater revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bond.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to pay for extraordinary repairs or replacements to the sewer system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

**(4) Bank Loans**

In July 2014, the City entered into a loan agreement with a local bank for \$19,918. The funds were used for the purchase of a 2015 Ford Taurus. The loan bears interest at 2.50% per annum and is to be repaid in 3 annual installments beginning October 15, 2014 and ending October 15, 2016. For the year ended June 30, 2016, principal and interest paid on the loan totaled \$6,856. The principal balance of the loan at June 30, 2016 was \$6,679.

In November 2014, the City entered into a loan agreement with a local bank for \$28,071. The funds were used for the purchase of a 2014 Dodge Charger. The loan bears interest at 2.50% per annum and is to be repaid in 3 annual installments beginning April 15, 2015 and ending April 15, 2017. For the year ended June 30, 2016, principal and interest paid on the loan totaled \$9,697. The principal balance of the loan at June 30, 2016 was \$9,437.

In May 2015, the City entered into a loan agreement with a local bank for \$27,218. The funds were used for the purchase of a 2014 Ford F150. The loan bears interest at 2.50% per annum and is to be repaid in 3 annual installments beginning October 15, 2015 and ending October 15, 2017. For the year ended June 30, 2016, principal and interest paid on the loan totaled \$9,394. The principal balance of the loan at June 30, 2016 was \$18,099.

In July 2015, the City entered into a loan agreement with a local bank for \$29,000. The funds were used for the purchase of a 2016 Ford Explorer. The loan bears interest at 2.50% per annum and is to be repaid in 3 annual installments beginning April 15, 2016 and ending April 15, 2018. For the year ended June 30, 2016, principal and interest paid on the loan totaled \$10,095. The principal balance of the loan at June 30, 2016 was \$19,449.

Annual amounts owed to maturity for the bank loans are as follows:



Year Ended June 30,	Principal	Interest	Total
2017	\$ 34,653	1,356	36,009
2018	19,011	482	19,493
	<u>\$ 53,664</u>	<u>1,838</u>	<u>55,502</u>

(5) **Operating Lease Agreement**

The District entered into a lease on December, 2014 to lease copier equipment at \$190 per month. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires on March 2021.

The following is a schedule of future payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2016:

Year Ended June 30,	Amount
2017	\$ 2,280
2018	2,280
2019	2,280
2020	2,280
2021	1,710
	<u>\$ 10,830</u>

During the fiscal year, total expenditures incurred in relation to this lease agreement were \$2,280.

(6) **Interfund Loan**

During the year ended June 30, 2012, the Special Revenue, Library Endowment Fund loaned \$73,000 to the Enterprise, Sewer Fund. The purpose of this loan was to provide funds to the Enterprise, Sewer Fund to make improvements to the City's sanitary sewer system. The loan is to be repaid in semi-annual payments of \$7,604.50 including interest at 1.50% per annum. The balance of the loan at June 30, 2016 was \$15,039. Total principal and interest paid during the year was \$15,209.

(7) **Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$81,277.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$389,552 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0078849%, which was an increase of 0.000354% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows and deferred inflows totaled \$45,277, \$112,607 and \$152,592, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
---------------------------	-----------------------------	---------------------------

City's proportionate share of the net pension liability	\$ 846,582	389,552	3,995
--	------------	---------	-------

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

(8) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 12 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Premium amounts for retirees under age 65 are based on the employees' age.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums are based on each employee's age. For the year ended June 30, 2016, the City contributed \$128,531 and plan members eligible for benefits contributed \$45,226 to the plan.

(9) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, overtime and sick leave time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, overtime and sick leave time payable to employees at June 30, 2016, primarily relating to the General Fund is as follows:

Type of Benefit	Amount
Vacation and overtime	\$ 38,405
Sick leave	93,848
Total	<u>\$ 132,253</u>

The liability has been computed based on the rates of pay in effect at June 30, 2016.

(10) **Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with the provisions of Internal Revenue Code Section 457. The plan, available to the police department and the City Manager, allows those employees to defer a portion of their current salary until future years. The plan is administered by ICMA-RC. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency. The City provides neither administrative service to the plan nor investment advice for the plan.

The contributions are made at 6.2% of gross salary by the City of Chariton, and the employees also contribute 6.2% of gross salary for a combined total of 12.4%. The contribution rates were established by the City of Chariton, and may be amended by the City. The contributions made by the City for the year ended June 30, 2016 were \$17,242, and the employee contribution rates also totaled \$17,242. The City's liability to ICMA-RC at June 30, 2016 totaled \$0.

**(11) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 100,000
	Debt Service	23,576
	Enterprise:	
	Sewer	25,392
		<u>148,968</u>
Special Revenue:	Special Revenue:	
Downtown Revitalization	Tax Increment Financing	<u>122,000</u>
Special Revenue:	Enterprise:	
Library Endowment	Sewer	<u>14,817</u>
Enterprise	General	10,000
Airport	Special Revenue:	
	Local Option Sales Tax	<u>38,700</u>
		<u>48,700</u>
		<u>\$ 334,485</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(12) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$5,040 during the year ended June 30, 2016.

**(13) Deficit Fund Balances**

At June 30, 2016, the City had deficit fund balances as follows:

Fund	Amount
Special Revenue, Downtown Revitalization	\$ 288,649
Special Revenue, Tax Increment Financing	15,116
Special Revenue, Multi-Family Housing	84,791
Enterprise, Airport	650,328

The Special Revenue, Downtown Revitalization Fund deficit will be eliminated when grants and contributions are received, and through a transfer from the General Fund

The Special Revenue, Tax Increment Financing Fund deficit occurred because costs were incurred prior to tax collections to be received in this fund.

The Special Revenue, Multi-Family Housing Fund deficit will be eliminated when contributions are received, and through a transfer from the General Fund.

The Enterprise, Airport Fund deficit will be eliminated when grants are received and through a transfer from the General Fund.

**(14) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(15) Landfill Closure**

The City landfill closed on April 1, 1994. Closure costs were incurred by the City in prior years for a final cover. Because the landfill closed before the effective date of state and federal rules and regulations, the City is not required to meet certain postclosure care requirements or demonstrate financial assurance for closure and postclosure care. However, state law requires the City to conduct ground water monitoring at the landfill for 30 years.

**(16) Contingencies**

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

**(17) Commitments**

The City and Lucas County entered into an agreement whereby the Sheriff's Office would provide dispatch services to the City. The agreement between the City and Lucas County expired on June 30, 2014. However, effective July 1, 2014, the agreement automatically renewed on a fiscal year-to-year basis. The total amount scheduled to be paid by the City in fiscal year 2017 to Lucas County in relation to this agreement is \$82,110.

The City and PeopleService, Inc. (PeopleService) have entered into an agreement with an effective date of July 1, 2014. The agreement is a three year agreement. The agreement with PeopleService states that PeopleService will operate and maintain the City's sewer system. During fiscal year 2016, the City paid PeopleService \$216,336. On July 1, 2016 the fee paid by the City to PeopleService will be adjusted based on the change in the consumer price index for all urban consumers.

The City has entered into various construction projects for airport improvements, sewer improvements, downtown revitalization costs and street improvements. As of June 30, 2016, approximately \$2,004,000 remains to be paid on these projects. This work will be paid for as work progresses in fiscal year 2017. The City intends to pay for these projects with federal grants, borrowed monies and from existing cash reserves.

**(18) Fund Balance**

The City's assigned fund balance in the General Fund as of June 30, 2016 consists of the following:

Purpose	Amount
Cemetery	\$ 203,827
Library	407,569
Park	4,802
Recycling	48,698
Total	<u>\$ 664,896</u>

**(19) Subsequent Events**

The City issued general obligation debt in fiscal year 2017 for \$600,000 for housing related activities.

The City issued a sewer revenue bond in fiscal year 2017 for \$600,000 to fund infrastructure improvements to the sanitary sewer system.

In fiscal year 2017 the City signed agreements for two bank loans for \$123,438 and \$87,000. These loans were for the purchase of a dump truck and a street patching machine.

The City has evaluated all subsequent events through February 6, 2017, the date the financial statements were available to be issued.

**(20) New Accounting Pronouncement**

The City adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

## Other Information



City of Charlton

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	(Unaudited)							Final to Total Variance
	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Component Unit		Total	Budgeted Amounts Original	
				Charlton Municipal Waterworks Actual	Final			
Receipts:								
Property tax	\$ 1,706,658	-	-	-	-	1,706,658	1,643,484	63,174
Tax increment financing	140,776	-	-	-	-	140,776	150,000	(9,224)
Other city tax	478,281	-	-	-	-	478,281	510,768	(32,487)
Licenses and permits	32,880	-	-	-	-	32,880	19,000	13,880
Use of money and property	12,136	37,592	-	14,091	-	63,819	2,650	61,169
Intergovernmental	941,210	-	-	-	-	941,210	1,694,000	(1,447,790)
Charges for service	112,538	1,129,456	252,627	2,037,863	-	3,027,230	1,892,026	(1,400,638)
Miscellaneous	349,366	7,972	-	28,942	-	386,280	140,000	196,280
Total receipts	3,773,845	1,175,020	252,627	2,080,896	-	6,777,134	6,051,928	(2,555,636)
Disbursements:								
Public safety	727,674	9,087	9,087	-	-	727,674	709,573	16,899
Public works	699,049	22,958	22,958	-	-	699,049	668,472	(30,577)
Health and social services	7,400	-	-	-	-	7,400	7,400	-
Culture and recreation	670,293	3,606	3,606	-	-	670,293	551,795	(33,498)
Community and economic development	107,161	-	-	-	-	107,161	639,400	582,239
General government	462,989	161,203	161,203	-	-	462,989	404,835	(58,154)
Debt service	371,050	-	-	-	-	371,050	423,527	52,477
Capital projects	1,032,031	-	-	-	-	1,032,031	275,000	(757,031)
Business type activities	-	1,354,957	2,251	2,237,122	-	3,589,828	2,218,508	1,591,522
Total disbursements	4,077,647	1,551,811	199,105	2,237,122	-	7,667,475	5,898,510	1,363,877
Excess (deficiency) of receipts over (under) disbursements	(303,802)	(376,791)	53,522	(156,226)	-	(890,341)	153,418	(1,191,759)
Other financing sources, net	23,009	8,491	-	-	-	31,500	-	(18,500)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(280,793)	(368,300)	53,522	(156,226)	-	(858,841)	153,418	(1,210,259)
Balances beginning of year	3,195,146	1,384,978	52,877	1,578,560	-	6,105,807	7,131,158	(1,025,351)
Balances end of year	\$ 2,914,353	1,016,678	106,399	1,422,334	-	5,246,966	7,482,576	(2,235,610)

See accompanying independent auditor's report.

City of Chariton

Notes to Other Information - Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$3,132,842. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government and the capital projects functions.

City of Chariton

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.007885%	0.007531%
City's proportionate share of the net pension liability	\$ 390	299
City's covered employee payroll	\$ 855	840
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	45.61%	35.60%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

\* ' In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Chariton

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Ten Years  
(In Thousands)

Other Information

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 81	80	78	75	83	75	74	68	63	61
Contributions in relation to the statutorily required contribution	(81)	(80)	(78)	(75)	(83)	(75)	(74)	(68)	(63)	(61)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 881	855	840	820	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	9.19%	9.36%	9.29%	9.15%	*	*	*	*	*	*

\* - City's covered employee payroll information was not readily available. Therefore, contributions as a percentage of covered employee payroll could not be calculated.

See accompanying independent auditor's report.

City of Chariton

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

## Supplementary Information

City of Charlton

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

Schedule 1

As of and for the year ended June 30, 2016

	Special Revenue						Permanent	
	Revolving Loan Fund	Library Endowment	Historic Preservation	Special Assessment	Fire Department	Tax Increment Financing	Multi - Family Housing	Cemetery Perpetual Care
								Total
Receipts:								
Tax increment financing	-	-	-	-	-	140,776	-	140,776
Use of money and property	192	-	4	-	-	-	71	267
Intergovernmental	-	-	780	-	-	-	-	780
Miscellaneous	-	-	-	-	-	-	-	19,385
Total receipts	192	-	784	-	-	140,776	16,825	161,208
Disbursements:								
Operating:								
Culture and recreation	-	-	1,065	-	-	-	-	1,065
Community and economic development	-	-	-	-	-	18,646	49,889	68,535
Total disbursements	-	-	1,065	-	-	18,646	49,889	69,600
Excess (deficiency) of receipts over (under) disbursements	192	-	(281)	-	-	122,130	(33,064)	91,608
Other financing sources:								
Transfers in	-	14,817	-	-	-	-	-	14,817
Transfers out	-	-	-	-	-	(122,000)	-	(122,000)
Total other financing sources	-	14,817	-	-	-	(122,000)	-	(107,183)
Change in cash balances	192	14,817	(281)	-	-	130	(33,064)	(15,575)
Cash balances beginning of year	129,536	74,316	6,698	3,732	260,569	(15,246)	(51,727)	627,057
Cash balances end of year	\$ 129,728	89,133	6,417	3,732	260,569	(15,116)	(84,791)	611,482
Cash Basis Fund Balances								
Nonspendable:								
Cemetery perpetual care	\$ -	-	-	-	-	-	-	221,810
Restricted for:								
Other purposes	129,728	89,133	6,417	3,732	260,569	-	-	489,579
Unassigned	-	-	-	-	-	(15,116)	(84,791)	(99,907)
Total cash basis fund balances	\$ 129,728	89,133	6,417	3,732	260,569	(15,116)	(84,791)	611,482

See accompanying independent auditor's report.

City of Chariton

Schedule of Indebtedness

Schedule 2

Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes -									
Corporate Purpose and Refunding Bonds	June 28, 2012	1.00%-2.00%	\$ 2,070,000	2,050,000	-	245,000	1,805,000	38,550	-
Corporate Purpose Bond	June 15, 2012	1.25%-2.00%	400,000	245,000	-	80,000	165,000	4,900	-
Total				\$2,295,000	-	325,000	1,970,000	43,450	-
Revenue Bonds -									
Sewer Revenue Bond	January 13, 2010	3.00%	\$ 808,000	653,000	-	34,000	619,000	19,590	-
Bank loans -									
2015 Ford Taurus	July 2, 2014	2.50%	\$ 19,918	13,205	-	6,526	6,679	330	-
2014 Dodge Charger	November 10, 2014	2.50%	28,071	18,667	-	9,230	9,437	467	-
2014 Ford F150	May 22, 2015	2.50%	27,218	27,218	-	9,119	18,099	275	-
2016 Ford Explorer	July 20, 2015	2.50%	29,000	-	29,000	9,551	19,449	544	-
Total				\$ 59,090	29,000	34,426	53,664	1,616	-

See accompanying independent auditor's report.



## City of Chariton

## Schedule 3

## Bond and Note Maturities

June 30, 2016

General Obligation Bonds and Notes					
Year Ending June 30,	Corporate Purpose and Refunding Bonds Issued June 28, 2012		Corporate Purpose Bond Issued June 15, 2012		Total
	Interest		Interest		
	Rates	Amount	Rates	Amount	
	2017	2.00%	\$ 250,000	2.00%	
2018	2.00%	255,000	2.00%	85,000	340,000
2019	2.00%	250,000	-	-	250,000
2020	2.00%	255,000	-	-	255,000
2021	2.00%	260,000	-	-	260,000
2022	2.00%	265,000	-	-	265,000
2023	2.00%	270,000	-	-	270,000
		<u>\$ 1,805,000</u>		<u>\$ 165,000</u>	<u>1,970,000</u>

Revenue Bonds		
Year Ending June 30,	Sewer Revenue Bond Issued January 13, 2010	
	Interest	
	Rates	Amount
2017	3.00%	\$ 36,000
2018	3.00%	37,000
2019	3.00%	38,000
2020	3.00%	39,000
2021	3.00%	40,000
2022	3.00%	42,000
2023	3.00%	43,000
2024	3.00%	45,000
2025	3.00%	46,000
2026	3.00%	47,000
2027	3.00%	49,000
2028	3.00%	51,000
2029	3.00%	52,000
2030	3.00%	54,000
		<u>\$ 619,000</u>

See accompanying independent auditor's report.

City of Charlton

Schedule 4

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Receipts:</b>										
Property tax	\$ 1,706,658	1,721,826	1,710,690	2,152,337	1,626,475	1,536,340	1,527,995	1,449,823	1,357,277	1,324,958
Tax increment financing	140,776	-	-	-	-	-	-	-	90,766	88,363
Other city tax	478,281	502,142	480,416	-	492,316	426,972	392,880	348,465	526,678	520,969
Licenses and permits	32,880	14,936	20,280	34,303	12,844	11,893	11,543	8,351	10,869	9,668
Use of money and property	12,136	24,495	24,522	13,637	17,671	42,337	56,569	81,874	116,875	313,763
Intergovernmental	941,210	2,581,692	739,942	569,635	794,761	707,313	720,783	1,419,371	723,369	509,582
Charges for service	112,538	114,958	118,037	140,202	145,342	131,338	117,015	123,850	101,806	74,262
Special assessments	-	-	-	-	-	-	3,732	2,221	22,658	11,033
Miscellaneous	349,366	490,628	263,901	126,396	131,500	312,480	181,044	295,759	172,556	638,795
<b>Total</b>	<b>\$ 3,773,845</b>	<b>5,450,677</b>	<b>3,357,788</b>	<b>3,036,510</b>	<b>3,220,909</b>	<b>3,168,673</b>	<b>3,011,561</b>	<b>3,729,714</b>	<b>3,122,854</b>	<b>3,491,393</b>
<b>Disbursements:</b>										
<b>Operating:</b>										
Public safety	\$ 727,674	726,370	654,929	671,681	587,218	702,382	738,608	1,027,649	756,584	670,353
Public works	699,049	631,400	654,028	700,672	590,805	730,280	750,617	859,241	975,900	762,208
Health and social services	7,400	7,400	7,417	4,700	4,700	7,767	7,400	11,060	7,270	7,683
Culture and recreation	670,293	586,188	607,779	489,795	630,902	559,230	693,033	539,897	433,780	537,248
Community and economic development	107,161	1,490,369	237,933	37,814	190,437	40,244	69,010	10,466	8,200	7,203
General government	462,989	373,425	356,522	348,658	350,950	342,522	383,818	362,634	339,543	358,532
Debt service	371,050	419,633	461,016	803,840	594,882	429,206	714,969	775,922	581,670	576,161
Capital projects	1,032,031	1,293,818	454,448	294,273	1,725	3,149	1,203,196	2,192,964	737,284	1,092,852
Non-program	-	-	-	-	-	-	-	-	-	55,231
<b>Total</b>	<b>\$ 4,077,647</b>	<b>5,528,603</b>	<b>3,434,072</b>	<b>3,351,433</b>	<b>2,951,619</b>	<b>2,814,780</b>	<b>4,560,651</b>	<b>5,779,833</b>	<b>3,840,231</b>	<b>4,067,471</b>

See accompanying independent auditor's report.

## City of Chariton

Schedule 5

## Schedule of Expenditures of Federal Awards

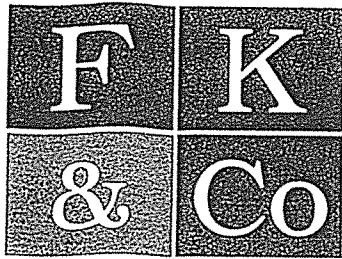
Year ended June 30, 2016

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration Airports Division:			
Airport Improvement Program	20.106	3-19-0014-009-2015	\$ 641,879
			<u>641,879</u>
Total - Direct			<u>641,879</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Natural Resources:			
Cooperative Forestry Assistance	10.664	N/A	<u>3,500</u>
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii	14.228	14-WS-034	18,329
		13-DTR-002	<u>251,761</u>
			<u>270,090</u>
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	16-402-MOOP	<u>568</u>
			<u>568</u>
Total - Indirect			<u>274,158</u>
Total			<u>\$ 916,037</u>

**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Chariton under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City.

**Summary of Significant Accounting Policies** – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Chariton has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa (City) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 6, 2017. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Chariton Municipal Waterworks, the Chariton Volunteer Fire Department and the Chariton Public Library Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items II-A-16, II-B-16, II-C-16 and II-D-16 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item II-E-16 to be a significant deficiency.

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

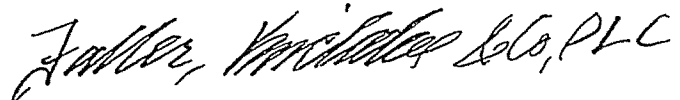
### City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

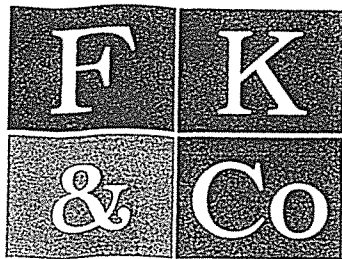
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa  
February 6, 2017



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance

To the Honorable Mayor and  
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Chariton Iowa's (City) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City's major federal program for the year ended June 30, 2016. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

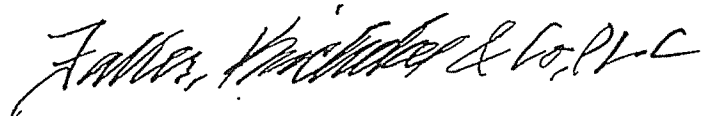
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-16, III-B-16 and III-D-16 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-C-16 to be a significant deficiency.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa  
February 6, 2017

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. An adverse opinion was issued on the financial statements of the aggregate discretely presented component units due to the omission of the Chariton Municipal Waterworks, the Chariton Volunteer Fire Department and the Chariton Public Library Foundation.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Chariton did not qualify as a low-risk auditee.



City of Chariton

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-16 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although three individuals are involved in the accounting duties of the City of Chariton, (City) there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response and Corrective Action Planned – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

II-B-16 Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirement.

Conclusion – Response acknowledged.

City of Chariton

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

II-C-16 Material Adjustments – During the audit, we identified a material amount of debt transactions posted to an incorrect fund. In addition, adjusting journal entries were made to properly record receipts and disbursements which were improperly recorded. Adjustments were subsequently made by the City to properly record these transactions on the City's financial statements.

Recommendation – We recommend the City implement procedures to ensure all transactions, including receipts and disbursements are properly recorded on the City's accounting records.

Response and Corrective Action Planned – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

II-D-16 Preparation of Schedule of Federal Awards – Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditure of Federal Awards (SEFA), including the accuracy of the CFDA numbers and the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under the Uniform Guidance.

Recommendation – We recommend the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Response and Corrective Action Planned – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

II-E-16 Chart of Accounts – The City is not consistently following the Uniform Chart of Accounts for City Governments in Iowa as recommended by the City Finance Committee.

Recommendation – The City should implement procedures to ensure all transactions are recorded in accordance with the Uniform Chart of Accounts.

Response – We will implement this to the best of our ability.

Conclusion – Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Chariton

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 20.106: Airport Improvement Program**  
**Pass-through Agency Number: 1-19-0014-009-2015**  
**Federal Award Year: 2015**  
**U.S. Department of Transportation**

III-A-16      Preparation of Schedule of Federal Awards – The City does not have a centralized  
(2016-001) process to gather the information required to be reported under OMB Circular A-133.  
See item II-D-16.

III-B-16      Segregation of Duties over Federal Receipts – The City did not properly segregate  
(2016-002) collection, deposit and record keeping for receipts, including those related to federal  
programs. See item II-A-16.

III-C-16      Change Orders – The change order with the construction contractor was signed by the  
(2016-003) City Manager one week before City Council approval. As a result, it appears the City  
Council approval one week after the fact was just a mere formality.

Recommendation and Corrective Action Planned – The City should implement  
procedures to ensure all change orders are approved by the City Council, and that the  
City Manager should sign these change orders after City Council approval.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

III-D-16      Cash Management – It is questionable if the City met the cash management requirements  
(2016-004) in relation to the Airport Improvement Program grant. Specifically, for the payment to  
the construction contractor, twenty-eight days elapsed between the check date and the  
date the check cleared the bank. In addition, the City received the grant reimbursement  
from the U.S. Department of Transportation ten days prior to the date the related check to  
the construction contractor cleared the bank. As a result, it is questionable if the City met  
the cash management requirements for federal funds in relation to the Airport  
Improvement Grant.

Recommendation and Corrective Action Planned – The City should implement  
procedures to ensure future grant funds from the Airport Improvement Grant are received  
on a reimbursement basis.

Response – We will implement this recommendation in the future.

Conclusion – Response acknowledged.

City of Chariton

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Pat IV: Other Findings Related to Required Statutory Reporting:**

IV-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works, culture and recreation, general government and the capital projects functions. Chapter 384.20 of the Code of Iowa states, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-B-16 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-16 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Avis Goben, Deputy Clerk Spouse of Steven Goben	Custodial service	\$5,040

The transactions with the above individual do not appear to represent conflict of interests since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

IV-E-16 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

IV-F-16 City Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-16 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

IV-H-16 Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.

City of Chariton

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- IV-I-16 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from reduction in debt or for any other reason to the County Auditor.

The City plans to use expected future TIF receipts to pay legal fees, engineering services and design services which were paid in the prior years from the Special Revenue, Tax Increment Financing Fund. These costs do not represent TIF obligations and accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City's TIF certifications and the amount of TIF debt to be certified.

Response – We will consult with our legal counsel in relation to these issues. We are currently only paying allowable costs from the TIF Fund which consists of rebates and interfund loans.

Conclusion – Response acknowledged.

- IV-J-16 Financial Condition – The Special Revenue, Downtown Revitalization Fund, the Special Revenue, Tax Increment Financing Fund, the Special Revenue, Multi-Family Housing Fund and the Enterprise, Airport Fund had deficit balances of \$288,649, \$15,116, \$84,791 and \$650,328, respectively, at June 30, 2016.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged.

- IV-K-16 Bank Loan Agreements – In fiscal year 2016, the City entered into a bank loan totaling \$29,000 for the purchase of a vehicle. However, the City did not comply with the provisions of Chapter 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the hearing.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

Response – We will implement this recommendation in the future.

Conclusion – Response acknowledged.

- IV-L-16 Accounting Procedures – For the Community Development Block Grant reimbursement claims filed with the State of Iowa, the City does not reconcile the amounts claimed from the State of Iowa and the actual amounts received. For example, in fiscal year 2016, the City filed a grant reimbursement claim form with the State of Iowa for \$16,507. City personnel were not aware that the State of Iowa had not reimbursed the City for this claim until we brought it to their attention.

City of Chariton

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Recommendation – The City should implement procedures to ensure the claim amounts filed with the State of Iowa are reconciled to the amounts actually received, with any differences followed-up on a timely basis.

Response – We will do this on the grant in question and all future grants.

Conclusion – Response acknowledged.

IV-M-16

Debt Service Levy – The City's budget certified to the State of Iowa includes a request of monies from the debt service levy for the payment of the debt on the City's vehicle loans.

However, there was no documentation that the City, by resolution, provided for an assessment of an annual levy for funds to pay off this debt.

Chapter 384.24A(3) of the Code of Iowa states that "The governing body shall follow substantially the same authorization procedure required for the issuance of general obligation bonds issued for the same purpose to authorize a loan agreement made payable from the debt service fund."

Furthermore, Chapter 76.2(1)(a) of the Code of Iowa states that "The governing authority of a political subdivision specified in section 76.1, subsection 1, before issuing bonds shall, by resolution, provide for the assessment of an annual levy upon all the taxable property in the political subdivision sufficient to pay the interest and principal of the bonds within a period named not exceeding the applicable period of time specified in section 76.1. A certified copy of this resolution shall be filed with the county auditor or the auditors of the counties in which the political subdivision is located; and the filing shall make it a duty of the auditors to enter annually this levy for collection from the taxable property within the boundaries of the political subdivision until funds are realized to pay the bonds in full. The levy shall continue to be made against property that is severed from the political subdivision after the filing of the resolution until funds are realized to pay the bonds in full."

Based on the above, it appears the City does not have legal authority to impose an assessment of an annual levy for funds to pay off the City's vehicle loans.

Recommendation – The City should consult with legal counsel regarding the disposition of this matter.

Response – We will consult with legal counsel on this.

Conclusion – Response acknowledged.

IV-N-16

Annual Urban Renewal Report (AURR) – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1. However, we noted that the City failed to include a \$500,000 rebate agreement on the AURR.

Recommendation – The City should consult TIF legal counsel to determine the proper disposition of the City's AURR.

Response – We will consult with our legal counsel in relation to this issue.

Conclusion – Response acknowledged.